

## **MEDICAL SAVINGS ACCOUNT: AN IDAHO INCOME TAX DEDUCTION**

An Idaho Medical Savings Account (MSA) allows you to save for medical expenses and nursing home costs while reducing the amount of Idaho income tax you owe. Contributions to a federal MSA do not qualify for this Idaho deduction.

To qualify as an MSA the financial institution must include the words Medical Savings Account or MSA on the statement provided to the account holder and in either the name, title, description, or designation of the account. This account is used exclusively to pay eligible medical, vision and dental expenses (as defined by the Internal Revenue Code), as well as health insurance premiums, supplemental Medicare premiums and long-term care.

Contributions to an MSA may be deducted from your adjusted gross income when you file an Idaho income tax return. You may contribute up to \$2,000 each year. If you are married and file a joint income tax return, you may contribute up to \$4,000. Interest earned on your account is also deductible. These deductions can be taken only on your Idaho income tax return; they do not apply to federal returns. Reimbursements that are redeposited into the MSA are not considered contributions to the MSA.

You must pay tax on any funds you withdraw from the account to pay for something other than eligible medical expenses. Also, if you are less than 59½ years of age, funds withdrawn to pay for something other than eligible medical expenses are subject to a 10% penalty.

Here are some frequently asked questions about the program:

### **Q: What will I receive from the financial institution at the end of the year?**

A: Beginning in 2002, the bank is only required to send a statement showing the interest the account earned, just like it does for any other account. The account holder will be responsible to keep the records of contributions, distributions and roll-overs.

### **Q: Can a married couple establish an MSA in both names, or must each person have a separate account?**

A: Either way is allowed.

### **Q: Is transportation to and from a medical appointment an eligible expense?**

A: Yes. You may base the amount either on your actual cost for gas, oil and parking, or the optional standard medical mileage rate set by the Internal Revenue Service.

### **Q. If I pay my health insurance premiums from my MSA, can I also claim the Idaho deduction for health insurance premiums on my Idaho income tax return?**

A: No. If the premiums are paid from an MSA you cannot take the deduction for health insurance premiums.

### **Q. If I pay eligible medical expenses from my account, are the expenses still deductible on Schedule A?**

A: Yes. Your Schedule A does not have to be reduced by any amount of eligible medical expenses paid from an MSA. If you claim medical expenses on the federal Schedule A,

the same amount is included if you itemize for Idaho.

### **Q: If I withdraw money to pay my child's medical expenses, must that child be my dependent for the withdrawal to remain exempt from tax?**

A: Generally, yes. However, you can pay the expenses for a child or grandchild if (1) the child is under 19 years of age or enrolled as a full-time student at an accredited college or university; (2) the child is not self-supporting, married or a member of the armed forces; or (3) the child is mentally or physically unable to be self-sufficient.

### **Q: If my employer contributes to the medical savings account, must I report that amount as income before I can deduct it?**

A: Yes, the amount should be included in your W-2 form as taxable wages.

### **Q: May I withdraw (tax free) from my MSA the health care premium my employer had deducted from my pay check?**

A: If the amount withheld from your paycheck for payment of health insurance premiums is included in taxable income on your W-2 form, you may withdraw funds from your MSA account to reimburse yourself.

### **Q: What if I take money out of my MSA to pay a medical bill and then my insurance company reimburses me for that expense?**

A: The reimbursement must be redeposited into the account within 60 days of the time you receive the reimbursement. If it is not redeposited, you must include the amount in taxable income and you may be subject to a

penalty because the withdrawal was not used for a qualified medical expense. The amount redeposited into the MSA is not considered a contribution to the MSA.

**Q: May I make contributions to my account at any time during the year and for any amount?**

A: The contributions must be made before the end of the calendar year. However, you can only contribute \$2,000 per year (\$4,000 if you are married filing a joint return).

**Q: Can I wait until an expense occurs before depositing money into my account?**

A: Yes. However, the money must be in the MSA before you pay the expense. Example: You go to the doctor today and he gives you a bill for \$500. Tomorrow you deposit \$200 into your MSA. At the end of the month you pay your doctor \$500. The middle of next month you deposit \$300 more into your MSA. You may only reimburse yourself \$200 because that was the amount in the account when you paid the bill.

**Q: Can I move my MSA from one bank to another?**

A: Yes, if you reinvest the money in a new MSA for the benefit of the same account-holder within 60 days of the withdrawal.

**Q: What will happen to the money in my MSA upon my death?**

A: If your spouse is your beneficiary, the account will continue to qualify as an MSA for the use of your spouse. If the beneficiary is not your surviving spouse, the account no longer qualifies as an MSA. The beneficiary (including

an estate) will have to include in income the amount in the MSA less any of your medical expenses paid within one year of your death.

**Q: What if I deposit money into my MSA by mistake?**

A: If you withdraw the money within 30 days of depositing it, there will not be any tax consequences.

**Q: What if I withdraw money from my MSA by mistake?**

A: If you redeposit the money within 30 days of the withdrawal, there will not be any tax consequences. The money you redeposit will not be considered a contribution to the MSA.

This brochure was prepared by the Idaho State Tax Commission. It does not provide comprehensive explanations of Idaho tax laws or rules. Specific questions should be addressed to the Idaho State Tax Commission or a qualified tax practitioner.

For more information, call the Idaho State Tax Commission at (800) 972-7660 or (208) 334-7660.

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***An Idaho Income Tax Deduction***